Ontario Clean Water Agency
Agence Ontarienne Des Eaux

Annual Report **2006**

Sessional Paper No. 17
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For Deputy Clerk: m-fz

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Complete Solutions, Clear Value

Our Vision

To be the most trusted provider of clean water services in Ontario, protecting public health and the environment and delivering best value to our clients and the Province of Ontario.

Our Mission

To demonstrate service excellence to our clients through the delivery of safe, reliable, and cost-effective water and wastewater operations and maintenance services that meet or exceed regulatory requirements.

Our Values

OCWA's values are the foundation of everything OCWA does:

- Being respectful of colleagues and clients
- Acting with integrity and fairness
- Delivering quality service to meet the needs of our clients
- Collaborating through teamwork
- Fostering innovation
- Accepting responsibility and being accountable

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Corporate Profile

We continue to grow our business by delivering *Complete Solutions, Clear Value* to our clients.

The Ontario Clean Water Agency is in the business of providing safe, reliable and cost-effective clean water services. Established by the *Capital Investment Plan Act, 1993*, OCWA's core business is the operation, maintenance and management of water and wastewater treatment facilities and their associated distribution and collection systems. In addition, OCWA offers a wide range of project management and advisory services to system owners to assist them in meeting their water and wastewater infrastructure needs and in preparing technical reports required to meet regulatory requirements. OCWA enters into multi-year operational service contracts and offers additional expertise on a fee-for-service basis.

The Partner of Choice for Ontario's Municipalities

OCWA operates more municipal water and wastewater facilities in Ontario than any other operating authority. The Agency currently has contracts to operate over 500 water and wastewater facilities ranging in size from small wells and pumping stations to large-scale urban water and wastewater systems. Municipal clients include townships, towns, cities, counties and regions as well as cross-jurisdictional boards or area systems where water and wastewater services are shared. OCWA continues to serve a growing number of First Nations communities and provides operations and maintenance services to commercial, industrial and institutional facilities.

Efficient and Effective Service Delivery

OCWA provides economies of scale that reduce overall operations and maintenance costs for individual clients. Through a hub/satellite service delivery structure, clients benefit from the sharing of management, administration, management systems and specialist support services that many of OCWA's clients would otherwise be unable to afford. OCWA's service approach was recognized as an example of operational efficiency in *Watertight*, the 2005 Expert Panel Report on Water and Wastewater in Ontario, prepared for the Government of Ontario.

Delivering Value to the People of Ontario

Since its inception, OCWA has been a vital resource of the Province of Ontario. As a provincial crown agency, OCWA places public safety and the delivery of safe and reliable water and wastewater services ahead of financial objectives. By providing system owners a cost-effective choice with respect to the operation of their water and wastewater systems, OCWA ensures that all Ontarians have access to a provider of safe and reliable water and wastewater services. This choice is particularly critical for small and rural municipalities as well as First Nations communities that may not have the resources or local skills to manage their systems themselves. As well, OCWA fulfills a key role for the Province by being prepared to respond to water-related emergencies.

A Message from the Chair and President & CEO

John Burke
Chair of the Board
of Directors

Dante Pontone
President and CEO

Overall, 2006 was a year of reflection, transformation, and renewed momentum. It was a particular pleasure for us to lead the process of renewing OCWA's strategy for revitalization in what continues to be a dynamic water and waste water industry.

On many fronts, 2006 was a breakthrough year for OCWA. It was a year of strong financial performance and achievement. We were successful in strengthening the Agency's competitive position in the marketplace and made significant progress towards balancing the Agency's long term financial sustainability with its ongoing public service obligations.

Within the detailed pages of this annual report, we celebrate our strong performance, our many achievements and successes, as well as our contributions to the Province over the past year. As you review this report, we hope you will share our pride in the accomplishments of this great organization.

On many fronts, 2006 was a breakthrough year.

OCWA grew its business significantly this year by providing new services to existing clients and measurable value to new clients. We demonstrated success both in the mature municipal service sector and with a growing number of institutional, commercial, industrial, and First Nations clients.

Our efforts to provide capital planning, asset management services, and services to meet our clients' evolving regulatory requirements were also successful. And we continued a mutually beneficial partnership with the Walkerton Clean Water Centre to deliver external training.

The Agency's commitment to public health and safety stands unquestioned as does its ability to meet clients' evolving needs and to deliver on its future goals. OCWA made positive contributions to provincial policy goals, enhancing our emergency response capabilities across the Province and further developing our ability to assist Ontario's First Nations communities to protect the quality of their water supplies.

OCWA's outlook is positive. The Agency continues to focus on growth, financial performance, and our public mandate, and in doing so we are making significant strides toward achieving our corporate vision. As we celebrate our successes in 2006, we look forward to working closely with all of our stakeholders, the Ministry of the Environment, and in particular with our dedicated staff, as we continue to provide exceptional water and wastewater services for our clients, and for the Province, in the years to come.

Corporate Goverance

Role of OCWA's Board of Directors

Members of OCWA's Board of Directors are appointed by the Lieutenant-Governor-in-Council. The Board is accountable to the Provincial Legislature through the Minister of the Environment. OCWA's Board of Directors is responsible for the overall supervision of the Agency's business.

The key responsibilities of the Board include:

- Working with Senior Management to set the strategic directions, goals and objectives of the Agency;
- Monitoring the Agency's performance against the strategic directions, goals and objectives articulated in the Agency's approved annual business plan;
- Ensuring sound financial management through review of quarterly financial statements, annual business plans, and annual presentations by the Auditor General of Ontario and the Agency's Internal Auditor, and ensuring appropriate response from Management to those reports;
- Ensuring appropriate systems and controls are in place for the proper administration of the Agency; and
- Ensuring timely reporting to the Province and the public in accordance with the Agency's governing documents.

Business Planning and Performance Measurement

OCWA formulates an annual Business Plan establishing goals over a three-year period. The Board approves the Business Plan and related performance targets annually and reviews achievement of these targets throughout the year.

Employees' performance appraisals are linked to the corporate plan and each employee is assessed by how well they contribute to achieving Agency objectives. The Agency uses a balanced scorecard approach to supplement this ongoing results-based planning process. A cross-functional team meets regularly to review the status of key business indicators and makes recommendations to senior management on opportunities to improve performance.

Accountability

The government and citizens of Ontario hold OCWA accountable in a number of ways, including:

- Reporting requirements for each OCWA-operated facility to municipal clients and the MOE;
- Individual facility reports for OCWA-operated municipal water treatment facilities available to the public through OCWA's municipal clients;
- An annual report, approved by the Minister of the Environment and tabled in the Provincial Legislature and available to all Ontarians, either in print or online at OCWA's website (www.ocwa.com);
- An annual business plan, including performance measures submitted for approval annually to the Minister of the Environment and every third year to the Ministry of Government Services (formerly Management Board Secretariat);
- Annual audits of OCWA's financial statements by the Office of the Auditor General of Ontario; and
- Public access to Agency records under the *Freedom of Information and Protection of Privacy Act*.

Board of Directors

Chair:

John Burke, Deputy Minister
Ministry of Municipal Affairs and Housing
Current Term (as Chair): Feb. 2005 to Nov. 2007
Current Term (as Director): Nov. 2004 to Nov. 2007

Gail Beggs, Deputy Minister
Ministry of Natural Resources
Current Term: Sept. 2004 to Sep. 2007

Suzanne Herbert, Deputy Minister
Ministry of Northern Development and Mines
Current Term: Sept. 2004 to Sep. 2007

Gadi Mayman, Chief Executive Officer
Ontario Financing Authority
Current Term: Feb. 2004 to Feb. 2007
term extended to Aug. 2007

Dante Pontone, President and Chief Executive Officer
Ontario Clean Water Agency
Term (as Chair): Aug. 2004 to Feb. 2005
Current Term (as Director): Aug. 2004 to Aug. 2007

Officers of the Agency

Dante Pontone
President and Chief Executive Officer

Dan Atkinson
Vice President, Operations

Brenda Baker
Vice President, Finance and Corporate Services

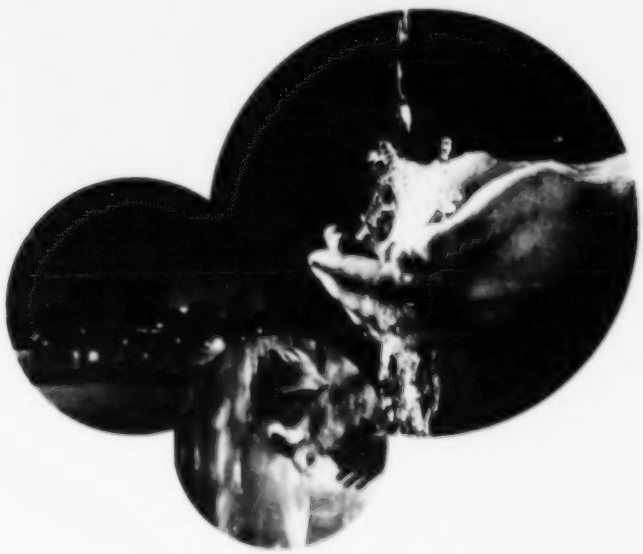
Robin Kind
General Counsel and Corporate Secretary

Frank Quarisa
Vice President, Project Development and Technical Services (to February 2006)

Nick Reid
Chief Information Officer

George Terry
Vice President, Project Development and Technical Services and Director, Market Development

Sandra Wittarge
Controller, Finance and Corporate Services



In 2005, OCWA set out to grow its business and work toward its goal of full cost-recovery without compromising service or compliance. To support these goals, the Agency focussed on enhancing client relationships, raising OCWA's profile in the industry, and investing in employee development.

Business Growth

Providing New Services, Attracting New Clients

In 2006, OCWA achieved new business revenues of $2.7M and strengthened its position in the marketplace. In addition, the Agency built upon its traditional service offering of operations, management and maintenance (OM&M) services for municipal water and wastewater treatment plants, and water distribution and wastewater collection systems. New products were developed to meet owners' evolving service requirements for water or wastewater systems. OCWA also grew its market share in non-traditional market sectors through the provision of services to commercial and industrial businesses to operate non-municipal water and wastewater systems.

Building Relationships with First Nations in Ontario

Significant progress was made in growing its relationships with First Nations communities. Two client services representatives are now dedicated to identifying opportunities to assist First Nations communities in meeting their unique water and wastewater needs. OCWA also reached an agreement with the federal government to provide first response to water-related emergencies in Ontario First Nations communities.

Partnering with First Nations Communities

OCWA staff are building relationships with First Nations communities throughout the Province, sharing operational knowledge & technical advice. OCWA provides project management services relating to the design and construction of both new and rehabilitated water treatment and distribution systems. OCWA is providing training opportunities to First Nations Operators, and is delivering technical support and first response services to assist Ontario First Nations with drinking water emergencies on behalf of the federal government.

Expanding OCWA's Range of Project Development and Technical Services

OCWA provides a wide range of project management and advisory services. New promotional materials were developed to market these services allowing OCWA to realize business growth in the areas of asset management, biosolids management, and project management for capital and major maintenance programs.

Active Partner in Protecting Public Health and the Environment

OCWA is an active member in a number of stakeholder initiatives related to ensuring the safety of drinking water, and protecting and better understanding Ontario's groundwater and surface water resources. OCWA has memberships with key industry associations, including the Canadian Water and Wastewater Association (CWWA), Ontario Water and Wastewater Association (OWWA) and Water Environment Association of Ontario (WEAO) and is involved with several of their technical and advisory committees. In 2006, OCWA participated on the OWWA's Drinking Water Quality Management Standard Peer Support Program Advisory Committee, which designed and made recommendations on a support program to assist municipalities meet pending SDWA requirements. OCWA is part of WEAO's Public Education Committee contributing to provincial outreach & awareness initiatives. OCWA also initiated a partnership with the Ministry of Health and Long-Term Care (MOHLTC), to provide technical advice and services to assist the MOHLTC with their understanding of small drinking water systems.

OCWA also coordinates the work of the OWWRC. The Ontario Water Works Research Consortium (OWWRC) brings University researchers, representatives of the federal and provincial governments together with municipalities that draw their drinking water from Lake Ontario.

In 2006, the OWWRC began research to ensure the long-term protection of Lake Ontario-based drinking water supplies. OCWA is project managing and coordinating the "Collaborative Study to Protect Lake Ontario Drinking Water" research project on source water protection. This project is funded directly by Ontario's Ministry of the Environment.

Developing Strategic Alliances

Over the past year, OCWA continued to build its partnership with the Walkerton Clean Water Centre to deliver the mandatory drinking water certification course across the province. Staff delivered 129 courses to more than 2,500 participating operators. OCWA also continued its work with the OWWRC, and expanded its research efforts in the areas of source water protection. OCWA continues to investigate opportunities for alliances to grow its business and improve service delivery to clients.

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- OCWA project sites in partnership with First Nations 2003-2006
- OCWA Regional Offices

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Achieving Full Cost-Recovery

OCWA has committed to achieving cost-recovery from utility operations by 2008. In 2006, progress was made through new business growth and implementing cost savings initiatives to reduce both direct and indirect costs.

Revenue Growth

Over the past fiscal year, OCWA achieved growth of $6.8M (6.5%) in Total Operating Revenue as compared to 2005. This growth relates to success in securing new business and a willingness to assume greater responsibilities to service its clients' water and wastewater needs.

Cost Management

The Agency continues to focus on the efficient delivery of OM&M, professional, and project management services. Continued cost savings initiatives including optimization of OCWA's head office service deliveries, fleet and telephone expenditures were implemented. The Agency will continue to seek cost savings and efficiencies in 2007 and beyond.

Efficient Service Delivery

OCWA began implementation of efficiencies through standardization and optimization of tools, technologies, and methodologies. This includes laying the foundation for the 2007 launch of a new enterprise financial system to replace the Agency's current financial systems and numerous related sub-systems. In addition, the Agency continues to review its administrative service delivery model. The resulting *Revitalization Strategy*, being implemented in 2007, will provide service improvements and cost savings in 2007 and beyond.

Improving the Client Experience

OCWA strives to deliver services that clients value. Throughout 2006, the Agency continued to engage clients to obtain feedback on the services that they value and require to meet their evolving needs.

Engaging Clients

Each year, an independent survey of clients is conducted to determine OCWA's performance in meeting client needs and identify areas for service improvement. Committed to continuous improvement, OCWA's goal is year-over-year overall improvement of client satisfaction. The 2006 results indicate improved client satisfaction with delivery of water and wastewater treatment services and invoicing. Satisfaction was also maintained client satisfaction in the area of management and support services.

Building on the success of the client advisory forums established in 2005, OCWA held five additional client forums. These forums have been well received and have offered the opportunity to provide clients with updates on new and upcoming regulatory changes to the water industry as well as provided opportunities to

- Discuss potential new services which could be developed to better meet client needs;
- Identify competitive pressures in the marketplace; and
- Gauge how well OCWA is serving clients.

Raising OCWA's Profile

OCWA committed to raise its profile within the industry, with clients and with the public we serve. New promotional materials were created to showcase its expanded service offerings. OCWA representatives made presentations at industry events on Best Practices in the Protection of Water Systems, Pandemic Planning for Water Utilities and the Collaborative Study to Protect Lake Ontario Drinking Water. In addition, the Agency increased its involvement in local sponsorship activities in communities where it operates.

Eric Joudrey, Cluster Manager (left) and Jason Jones, Operator/ Mechanic (right) speak at the Brantford Brant Children's Water Festival

Compliant Operations

OCWA continues to respond to further changes to the regulatory environment, including preparing for accreditation of operating authorities under the *Safe Drinking Water Act, 2002* (SDWA) and new confined space regulations under the *Occupational Health & Safety Act* (OSHA). In addition, the Agency continued to test and strengthen its emergency response capabilities in the event of a drinking water emergency.

Preparing for Operating Authority Accreditation

OCWA continues to prepare for provisions under the SDWA that will place additional requirements on both water system owners and operators, including the accreditation of Operating Authorities. Accreditation is expected to be contingent upon meeting the Drinking Water Quality Management Standard (DWQMS). In 2006, a cross-functional team remodelled the Agency's Environmental Management System (EMS) to a new Quality and Environmental Management System (QEMS) providing a solid base to meet future requirements of the DWQMS and developed additional procedures and guidance material relating to other DWQMS program elements. In 2007, work will continue with clients to ensure their facilities are able to meet pending accreditation requirements of the Municipal Drinking Water Program.

Self-Initiated Facility Audits

OCWA performs self-initiated audits of the facilities it operates to systematically identify and manage operational risks in a proactive manner. In 2006, an internal compliance team performed 39 compliance audits—9 more than the year's target of 30. In addition to compliance audits, self-initiated facility assessment reviews were conducted for each of the facilities OCWA operates.

Monitoring Compliance

OCWA has an unwavering commitment to public health and safety. To ensure the Agency meets the Province's regulatory standards and improves on its compliance record, OCWA monitors its performance in the areas of Provincial Officer Orders resulting from MOE inspection of OCWA-operated facilities, reportable incidents, and number of adverse water quality incidents. OCWA was successful in improving performance in all areas in 2006.

Johnny Lo, Operator, stands watch during a confined space entry

The MOE conducted 188 inspections of OCWA-operated water and wastewater facilities in 2006. 12 Provincial Officer Orders were issued to facilities the Agency operates—9 less than it received in 2005. The Agency has demonstrated consistent improvement since 2003. In 2006, there were no charges related to environmental incidents, nor were there any health and safety incidents involving investigations or charges.

Enhanced Emergency Management Services

Through a funded partnership with the Ministry of the Environment, OCWA provides emergency response services in the event of a drinking water emergency. In 2005, the Agency established Emergency Response Teams to deploy to an emergency situation at a water facility in the province and recommend resources required for rehabilitation of the utility. Selected from existing staff and management, OCWA's Emergency Response Teams are specially equipped, trained, and tested to ensure an efficient response to emergency situations. In 2006, an additional team was established in northwestern Ontario in order to enhance coverage and ensure a timely response. In addition, OCWA completed the renewal of its Emergency Management Program including the release of its new Emergency Plan.

Employee Development: Investing in OCWA's Future

OCWA operates in a highly specialized business that requires a knowledgeable and licensed workforce to deliver services that may have a direct impact on public health. Investment in attracting, retaining, and developing employees is an ongoing priority for OCWA. In 2006, the Agency undertook specific initiatives to further develop employee competencies, engage employees to contribute to meet strategic goals, and attract youth to the field of water and wastewater management.

Meeting Operator Training Requirements

OCWA delivered training to close to 200 employees on the *Occupational Health and Safety Act's* new confined space regulations. In addition, the Agency improved its comprehensive training database and reporting system to assist employees to manage their training hours, and provided training opportunities to assist licensed staff achieve their legislated training requirements.

OCWA Scholarship Programs

The Agency actively supports educational initiatives and mentoring through various programs and awards. OCWA launched two scholarship programs to complement its other youth employment initiatives (Co-ops, Job Placements, and Internships). Both OCWA's Scholarship for Second-year Students in an Environmental Program and OCWA's Environmental Entrance Scholarship for First Nations Students provide financial awards and co-op work terms. Two Scholarships are awarded annually for each of these two programs.

Lacey Garrett (centre) of Confederation College receives an OCWA Environmental Entrance Scholarship award for First Nations Students from OCWA's Nimet Manji, Organizational Development Consultant and Kevin Sherlock, First Nations Client Services Representative

Richard Greaves (centre) of Cambrian College receives an OCWA Environmental Entrance Scholarship award from OCWA's Frank de Burger, Client Services Representative and Nimet Manji, Organizational Development Consultant

Engaging Employees

OCWA continues to encourage its employees to deliver on client commitments and to meet corporate goals. The results of OCWA's first employee survey, carried out in 2006, were positive and indicated a high level of satisfaction and a strong sense of pride in the organization. In 2007, the Agency will implement measures to further enhance the way it communicates with its employees, to encourage greater awareness of corporate goals, and to foster employee input and innovation.

OCWA's senior management attended local area staff meetings to both encourage dialogue with front line staff and gain a better mutual understanding of the opportunities and challenges that face both senior management and front line employees.

Skills Development

OCWA recognizes the need to attract, develop and retain people with the aptitude and abilities to meet current and future organizational needs. Through an employee development program which includes talent management, succession management and leadership development, the Agency is encouraging employees to improve their skills and expertise to better meet their clients' evolving needs.

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Summary of Performance Measures for 2006 Activities

Measure:	Outcome: Achieved	Delayed	Reprofiled
Growing OCWA's Business			
• Submit 15 new proposals for expanded services to existing clients and self-serve municipalities.	✓		
• Submit four new business OM&M proposals to non-municipal clients.	✓		
• Prepare and put in place a marketing program to capture business in "self serve" municipalities.	✓		
• Make contact with all Tribal Councils promoting OCWA services.	✓		
• Include one opportunity for strategic partnership in 2007-09 Business Plan.	✓		
• Establish clearly defined package of Project Development & Technical Services (PDTS) services.	✓		
• PDTS to achieve financial break-even by end of 2006.	✓		
Achieving Full Cost-Recovery			
• $1.3M in new business revenue.	✓		
• 10% reduction in fleet.	✓		
• 10% reduction in overtime hours in operations[1].			✓
• Complete review of Agency telephone expenditures and develop strategy to reduce expenditures in 2006 and beyond (as compared to 2005).	✓		
• Achieve net income of $2.3M.	✓		
• Present strategy to MOE to recover costs for non-commercial activities.	✓		
Improving the Client Experience			
• Improve client satisfaction results as compared to 2005.	✓		
• Establish Advisory Board (Client Forums).	✓		
• Update marketing materials.	✓		
• Sponsorship in 2 to 3 community forums in 2006.	✓		
• Provide new sales tools.[2]		✓	
Efficient and Compliant Operations			
• Achieve accreditation by MOE deadline (on target to meet deadlines which begin in 2008).	✓		
• Reduce the number of Provincial Officer Orders.	✓		
• Reduce the number of reportable incidents.	✓		
• Reduce the number of adverse water quality incidents.	✓		
• Conduct 30 facility audits.	✓		
• Hold annual test of emergency response capabilities.	✓		
• Complete reviews of corporate and operations service delivery models.	✓		
• Implement Enterprise System solutions.[2]		✓	
Employee Development: Investing in OCWA's Future			
• Implement Talent Management Program.	✓		
• Launch Succession Management Program.	✓		
• Launch Leadership Development Program.	✓		
• Conduct Employee Survey and deliver results to SMC.	✓		
• Hold four roundtable sessions.	✓		
• Establish set agendas for mangers to meet with staff on key corporate initiatives.	✓		

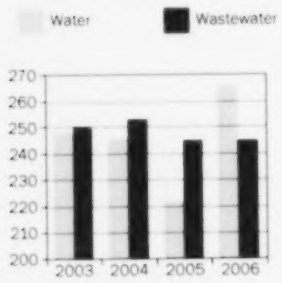
[1] Unable to accurately compare year over year overtime costs as overtime costs not differentiated from other premium payments.

[2] Minor delay to initiative. To be completed in 2007.

Business Performance

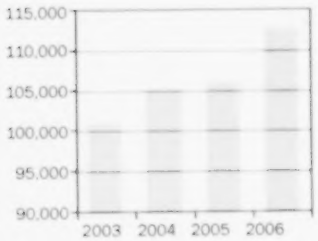
Business Growth – Operations, Maintenance & Management

# of Facilities



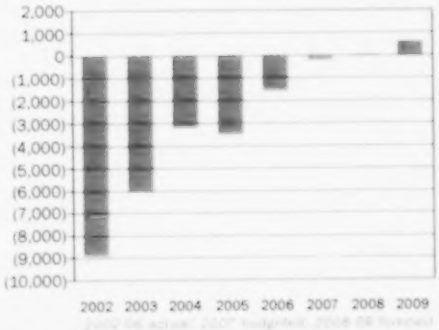
Revenue – Operations, Maintenance & Management

(thousands of dollars)



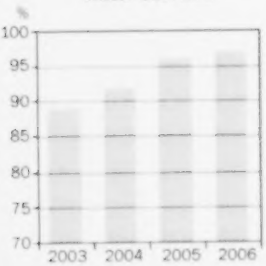
Net Income/(Loss) – Utility Operations

(thousands of dollars)

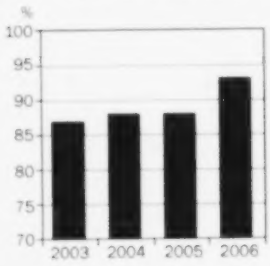


Client Satisfaction Survey Results

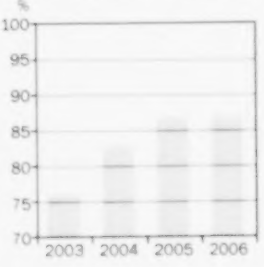
Water Services



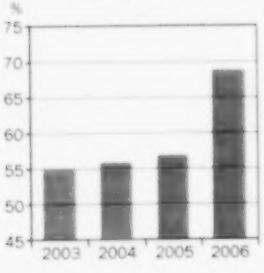
Wastewater Services



Management & Support



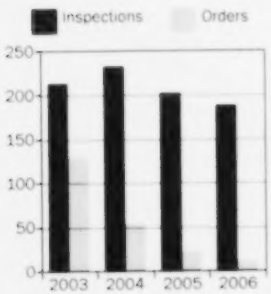
Invoice Process



Compliance and Training

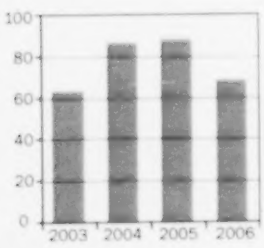
Provincial Officer Orders issued as a result of MOE inspection of OCWA operated facilities

(as at Dec. 31, 2006)



Average No. of Training Hours for Licenced Operators

(as at Dec. 31, 2006)



Occupational Health & Safety

Electrical & Utilities Safety Association (EUSA) Historical Average Benchmark for 2004 was 3.7. EUSA is the Safe Workplace Association that was assigned to OCWA by the Workplace Safety Insurance Board (WSIB). By calculating the ratio of compensable accidents to the total number of hours worked and comparing that number to EUSA standard, the Agency can determine the effectiveness of its OH&S policy and procedures.

2007 and Beyond

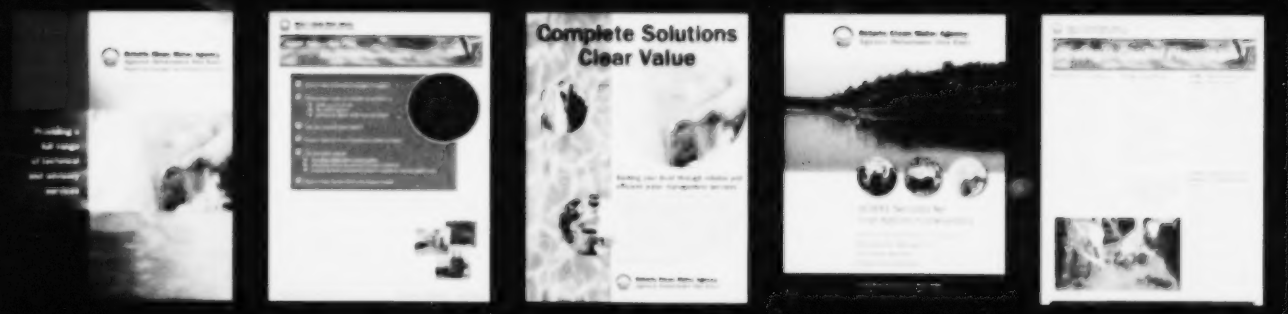
Building on its successes, the Agency will continue to strike an appropriate balance between business goals and its public mandate by delivering ***Complete Solutions, Clear Value*** to its clients and to the Province.

Building on the foundation of 2006, OCWA will continue its efforts to implement strategies to strengthen its market position while ensuring continued quality of service delivery and regulatory compliance. The Agency will continue to work with its client partners to identify opportunities to improve existing service delivery and meet our clients' changing needs through new products and solutions.

By providing complete solutions to meet existing client needs and capturing business in new markets, OCWA is committed to growing its market presence. Through growth and new organizational efficiencies, OCWA intends to achieve full cost-recovery in 2008 without compromise to compliance or client service. In addition, OCWA will continue to reinvest in strengthening its most important assets— its staff, management and operational systems.

During the next business planning period, the Agency will work with the Province to deliver on its public mandate and will remain ready to respond in the event of a water-related provincial emergency. OCWA will also continue to strengthen its relationships with First Nations communities by providing training, engineering and operational services in support of their water and wastewater needs.

OCWA developed new marketing materials to promote OCWA's expanding scope of services.



Manager's Responsibility for Financial Information

Management and the Board of Directors are responsible for the financial statements and all other information presented in this annual report. The financial statements have been prepared by management in accordance with generally accepted accounting principles and, where appropriate, include amounts based on management's best estimates and judgements.

The Ontario Clean Water Agency is dedicated to the highest standards of integrity in its business. To safeguard assets, the Agency has a sound set of internal financial controls and procedures that balance benefits and costs. Management has developed and maintains financial and management controls, information systems and management practices to provide reasonable assurance of the reliability of financial information in accordance with the bylaws of the Agency. Internal audits are conducted to assess management systems and practices and reports are issued to the senior management committee.

The Board of Directors ensures that management fulfills its responsibilities for financial information and internal control. The Board of Directors meets quarterly to oversee the financial activities of the Agency and at least annually to review the financial statements and the external auditor's report thereon, and recommend them to the Minister of Environment for approval.

The Auditor General has examined the financial statements. The Auditor General's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with generally accepted accounting principles. The Auditor's Report outlines the scope of the Auditor's examination and opinion.

Dante Pontone
President and Chief Executive Officer

Brenda Baker
Vice President, Finance and Corporate Services

Overview of OCWA's 2006 Financial Results

OCWA's financial performance continues to improve. The Agency's Balance Sheet continues to show a strong asset position and no long term liabilities. With the exception of the impact of an extraordinary provision taken during 2005, related to a loan made at the direction of the Government, Retained Earnings have shown steady growth since the Agency was established in 1993.

OCWA's key financial goal for the short to medium term is to continue to grow its retained earnings on behalf of the shareholder. This strategy will enable OCWA to both increase reinvestment in operations and maintenance services and position itself to better assist municipalities to address shortfalls in water and wastewater infrastructure capital reinvestment.

The Agency has consistently equalled or surpassed the market in terms of its return on financial investments. OCWA's performance has supported the delivery of competitively-priced services and the ongoing reinvestment in tools, technologies and services to ensure that OCWA consistently meets legislated requirements. This financing income has also served to offset shortfalls between revenue from operations and agency expenses. In 2005, the Agency committed to eliminate the shortfall from operations by the end of fiscal 2008, through aggressive targets for the reduction of administrative and other costs agency-wide as well as through the identification of new markets for OCWA's technical and training services.

In 2006, these efforts resulted in the Agency reporting Net Income of $3.6 million, a significant increase over the corresponding amount (before extraordinary items) reported in 2005. In spite of these very impressive results, the Agency is in the process of implementing a revitalization strategy that will reduce business process costs even further thereby ensuring appropriate funding is available for its priority initiatives.

During 2006, OCWA focused on expanding the range of services it provides to existing clients to enable them to adequately meet new legislative requirements as they emerge. OCWA also made investments in new resources devoted to the development of initiatives which focus on the specific needs of First Nations communities. These investments will ensure that First Nations communities are provided with greater access to essential water and wastewater treatment services.

OCWA's success in 2006 confirms that we are well positioned to achieve the targets that senior management established for 2008 and anticipate continued growth in our income from operations as well as our financial performance on investments.

Assets

At December 31, 2006, OCWA's cash balance was $34.6M, which represents an increase of $1.6M from that reported at December 31, 2005. OCWA's investment portfolio continues to generate interest revenue for the Agency. This portfolio is comprised of a loan to Infrastructure Ontario (IO) and municipal loans inherited from

the Province at the time OCWA was formed, as well as new loans made by the Agency and its cash and short term investments (referred to as Interest from OCWA Business Stream Investments). Interest revenues of $7.1M were generated in 2006 with $5.5M relating to the inherited portion of the portfolio and the balance of $1.6M related to the OCWA Business Stream investments.

Liabilities

As mentioned in the introduction to this section, OCWA has no long-term debt. Liabilities reflect current payables and a provision for long-term employee benefits (LTEB). The LTEB account is topped up at 3% of salaries, and reflected in operating costs, to ensure an estimated balance of $7.0M, which represents approximately 90% coverage of the total amount required to meet all termination benefits of all OCWA employees. This account also includes a provision for the estimated cost of future Workers' Safety Insurance Board (WSIB) payments. This provision was increased by $600,000 at the end of 2006 based on estimates provided by the WSIB. The financial statements reflect an expense to reflect the adjustment to this provision.

Equity of Ontario

In our 2006-2008 Business Plan, the Agency set a Net Income target for 2006 of $2.3 million ($1.8 million more than the 2005 Net Income before extraordinary items). Although this Net Income target represented significant growth over the prior year, the Agency is pleased to report that it has surpassed the target and for 2006 is reporting Net Income of $3.6 million.

As a result of the strong financial results reported this year, Equity at December 31, 2006 increased to $174.6M compared to $171.2M at December 31, 2005. This increased return on behalf of our shareholder will permit the Agency to meet its objective of achieving full cost-recovery while allowing the Agency to continue to invest in technology and resources to improve service offerings to our clients and to provide essential services to new clients.

Utility Operations and Technical Services

OCWA's revenue continues to grow with operating revenues increasing by $6.8M (6.5%) in 2006 as compared to 2005. This growth relates to OCWA's success in attracting new operations and maintenance business, attracting new clients for its technical and training services and increased resources focused on the provision of services to First Nations clients.

Utility operations continue to face pressure resulting from cost increases for various commodities and services including hydro, sludge haulage, chemicals and natural gas that were above the projected inflation increase. In addition, salaries and benefits increased due to collective agreements, pay for performance, job re-classifications, and pay for certification.

Comprehensive and General liability insurance costs have tripled since 2001. This cost increase was partially mitigated by assuming higher risk as a result of increasing the Agency's deductibles. Faced with these cost pressures, the Agency continues its efforts to reduce corporate administrative costs, resulting in reductions in corporate indirect spending compared to 2005, even after taking into account salary awards and other inflationary increases.

Auditor's Report

To the Ontario Clean Water Agency,
the Minister of the Environment
and to the Minister of Finance

I have audited the balance sheet of the Ontario Clean Water Agency as at December 31, 2006 and the statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Agency's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Agency as at December 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Ontario
March 16, 2007

Jim McCarter, CA
Auditor General
Licensed Public Accountant

As at December 31, 2006

(in thousands of dollars)	2006	2005
Current assets:		
Cash and short-term investments	**34,617**	33,060
Accounts receivable, net		
Municipalities and other customers	**22,318**	20,433
Ministry of the Environment	**60**	162
Goods and services tax receivable	**982**	1,150
Prepaid expenses	**3,390**	3,125
Current portion of investments receivable:		
Water and wastewater facilities (note 3)	**2,673**	2,745
Facilities under construction (note 4)	**1,241**	3,297
	65,281	63,972
Non-current assets		
Investments receivable for water and wastewater facilities (note 3 and note 14b)	**8,891**	11,172
Loan receivable — Top-up loan (note 6)	**120,000**	255
Loan receivable — Infrastructure Ontario (note 5)	**246**	120,000
Loan receivable — Stelco Inc. (note 7)	**211**	0
Fixed assets, net (note 8)	**4,662**	5,066
	134,010	136,493
Total Assets	**199,291**	200,465

See accompanying notes to financial statements

Balance Sheet - Liabilities and Equity

As at December 31, 2006

(in thousands of dollars)	2006	2005
Current liabilities:		
Accounts payable and accrued liabilities	**16,248**	20,349
Current portion of employee future benefits (note 11)	**1,000**	1,000
Provision for restructuring costs	**172**	261
	17,420	21,610
Long-term liabilities:		
Municipal contributions payable (note 10)	**271**	1,108
Employee future benefits (note 11)	**7,014**	6,537
	7,285	7,645
Equity of Ontario:		
Contributed surplus (note 13)	**95,872**	96,127
Retained earnings	**78,714**	75,083
	174,586	171,210
Contingencies (note 14)		
Total Liabilities and Equity	**199,291**	200,465

See accompanying notes to financial statements

On behalf of the Board

Dante Pontone
Director

Gadi Mayman
Director

As at December 31, 2006

(in thousands of dollars)	2006	2005
Utility Operations Revenues:		
Utility operations	110,098	104,241
Fees	2,710	1,791
Total Operating Revenues	112,808	106,032
Operating Expenses:		
Salaries and benefits (note 11 and note 12)	48,929	48,361
Other operating expenses	65,518	62,143
Amortization of fixed assets	1,673	1,739
Electronic Operating Systems (note 1c)	0	656
Total Operating Expenses	116,120	112,899
Net Loss – Utility Operations	(3,312)	(6,867)
Financing Revenues:		
Interest from investments, loans receivable and facilities under construction	7,115	7,164
Total Financing Revenues	7,115	7,164
Financing Expenses:		
New Tecumseth loan provision (note 14b)	0	18,579
Interest	30	26
Loan administration expenses	32	32
Amortization of fixed assets	60	60
Total Financing Expenses	122	18,697
Net Income (Loss) – Financing	6,993	(11,533)
Net Income (Loss) for the Year Before Property Transfer Initiative	3,681	(18,400)
Property Transfer Initiative (note 15)	(50)	(48)
Net Income (Loss) for the Year	3,631	(18,448)
Retained earnings, opening balance	75,083	93,531
Retained earnings, ending balance	78,714	75,083

See accompanying notes to financial statements

Statement of Cash Flows

As at December 31, 2006

(in thousands of dollars)	2006	2005
Cash provided by (used for)		
Operating activities:		
Net Income	3,631	(18,448)
Items not affecting cash:		
- Amortization of fixed assets	1,733	1,799
- New Tecumseth loan provision	0	18,579
	5,364	1,930
Changes in non-cash operating working capital		
- Accounts receivable	(1,615)	10,507
- Prepaid expenses	(265)	(485)
- Accounts payable and accrued liabilities	(4,101)	15
- Provision for restructuring costs	(89)	261
	(6,070)	10,298
Net cash flows from operating activities	(706)	12,228
Financing Activities:		
Decrease in investments receivable for water and wastewater facilities	2,353	3,571
Decrease in investments receivable for facilities under construction	2,056	5,225
Decrease in municipal contributions payable	(837)	(334)
Increase (decrease) in future employee benefits payable	477	(60)
Decrease in loan receivable - Top-up loan	9	50
Increase in note receivable	(211)	0
Changes in contributed surplus	(255)	(728)
Net cash flows from financing activities	3,592	7,724
Fixed assets - acquired	(1,329)	(858)
Increase in Cash	1,768	19,094
Cash and Short-Term Investments, Opening Balance	33,060	13,966
Cash and Short-Term Investments, Ending Balance	34,617	33,060

See accompanying notes to financial statements

General

The Ontario Clean Water Agency ("Agency") was established on November 15, 1993, under the authority of *The Capital Investment Plan Act, 1993* (the "Act").

In accordance with the Act, the Agency's objectives include:

- assisting municipalities to provide water and wastewater services on a cost-recovery basis by financing, planning, developing, building and operating such works and services;
- financing, building and operating water and wastewater facilities on behalf of Ontario on a cost-recovery basis; and
- providing these services to protect human health and the environment, encouraging conservation of water resources and supporting Provincial policies for land use and settlement.

The Agency is exempt from Federal and Provincial income taxes.

1. Significant Accounting Policies

These financial statements are prepared in accordance with Canadian generally accepted accounting principles as prescribed by the Canadian Institute of Chartered Accountants. Included below are those accounting policies that are of significance to the Agency.

(a) Cash and short-term investments

Cash and short-term investments are highly liquid investments with original maturities of three months or less when purchased.

(b) Fixed assets

Major capital expenditures with a future useful life beyond the current year are capitalized at cost. Amortization is provided using the declining balance method with a half year provision in the year of purchase if the asset is available for use. Fixed assets are being amortized at annual rates as follows:

Automotive equipment	25%
Furniture and fixtures	20%
Computer hardware	33%
Computer software	50%
Machinery and equipment	20%
Leasehold improvements	Life of the lease

(c) Electronic Operating Systems

As approved by the Board of Directors, the Agency continues to reflect spending on Electronic Operating Systems (OCWAware) as an operating expense in the year in which it is incurred since the Agency does not anticipate recovering these costs from future utility operations.

(d) Investments receivable for facilities under construction

Interest on borrowings and other incremental expenditures relating to facilities are capitalized during the construction period. The rate of interest is set at the start of the fiscal year by using the average one year interest rate of the prior year, as paid by the Ontario Financing Authority.

(e) Utility operations

A portion of the contractual arrangements with clients for the operation of water and wastewater treatment facilities provides for the recovery of all costs incurred in their operations plus a management fee. Revenue is recognized at the time such costs are incurred even though agreements may provide for the collection of a portion of those costs in future years. Accordingly, costs incurred in excess of amounts billed to date and to be recovered in future years are classified as "Investments receivable for water and wastewater facilities".

(f) Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenditures for the period. Actual amounts could differ from these estimates.

2. Fair Value of Financial Instruments

The carrying amount of cash and short-term investments, accounts receivable, accounts payable and accrued liabilities approximate fair value due to the short-term maturities of these instruments. Due to prepayment options, the carrying value of the balance of the financial assets and long-term liabilities approximate their fair value.

3. Investments Receivable for Water and Wastewater Facilities

(a) These investments represent the outstanding principal portion of amounts receivable from clients for capital expenditures undertaken by the Agency on their behalf, and recoverable operating costs, if any, not billed. In addition, they include capitalized interest on certain facilities that will be collected from clients during future years.

(b) The investments receivable are supported by agreements that bear interest at rates between 2.0% and 10.52%. Scheduled principal repayments of the investments are as follows:

(in thousands of dollars)	
2007	2,673
2008	1,333
2009	1,206
2010	881
2011	904
Thereafter	4,567
	11,564
Less: Current portion	2,673
	$ 8,891

4. Investments Receivable for Facilities Under Construction

"Investments receivable for facilities under construction" represents new water and wastewater facilities or major capital improvements to existing facilities that have been undertaken by the Agency on behalf of its clients.

5. Loan Receivable – Top Up Loan

The Agency made a loan to finance water and wastewater facilities to a municipality that received provincial assistance under the Municipal Assistance Program. The loan was made for 25 years at an interest rate of 8.85% set by the Province at the time the loan was granted and matures on December 15, 2020.

6. Loan Receivable – Infrastructure Ontario

The Agency has a loan of $120 million with Infrastructure Ontario, an agency of the provincial government, which matures on March 1, 2023. The interest on the note is paid quarterly, with a rate set at four basis points below the average monthly Canadian Dollar Offered Rate. The market value of the note approximates cost.

7. Note Receivable – Stelco Inc.

The Agency received a Secured Floating Rate Note from Stelco Inc. This note is in payment of a balance outstanding for services provided by the Agency. The note has a maturity date of March 31, 2016 and a value of $183,000 United States Currency. The note was recorded by the Agency at a value of $0.2 million Canadian Currency.

8. Fixed Assets

(in thousands of dollars)	Cost	Accumulated Amortization	**Net December 31, 2006**	Net December 31, 2005
Furniture and fixtures	1,788	1,417	371	484
Automotive equipment	166	131	35	49
Computer hardware	7,466	6,106	1,360	1,358
Computer software	4,345	3,417	928	462
Leasehold improvements	6,626	4,827	1,799	2,531
Machinery and equipment	558	389	169	182
	$20,949	16,287	4,662	5,066

9. Lease Commitments

Annual lease payments under operating leases for rental of office equipment, premises and vehicles in aggregate are as follows:

(in thousands of dollars)	
2007	2,276
2008	1,892
2009	974
2010	381
2011	137
	$ 5,660

10. Municipal Contribution Payable

At December 31, 2006, the Agency held funds on behalf of the municipalities amounting to $0.3 million (2005— $1.1 million). These funds are included in cash and short-term investments.

11. Non-Pension Employee Future Benefits

The Agency is responsible for the accrued legislated severance and its workers compensation obligations.

The costs of these employee future benefits have been estimated at $8.0 million (2005— $7.5 million) of which $1.0 million has been classified as current liability. The amount accrued in 2006 was $1.4 million (2005— $0.8 million) and is included in salaries and benefits expense in the Statement of Income and Retained Earnings.

Included in employee future benefits is an estimated workers compensation obligation in the amount of $1.7 million (2005— $1.1 million). This amount has been determined from the most recent available actuarial calculations provided by the Workplace Safety and Insurance Board (WSIB) as at December 31, 2005.

It is management's opinion that the balance at December 31, 2006 will not be materially different. Adjustment to the estimated WSIB obligation cumulative balance, if any, will be made in the year the actual balance is provided by WSIB.

The cost of other post-retirement, non-pension employee benefits is paid by the Ministry of Government Services and therefore is not included in the financial statements.

12. Pension Plan

The Agency provides pension benefits for all its full-time employees through participation in the Public Service Pension Fund (PSPF) and the Ontario Public Service Employees' Union Pension Fund (OPSEU Pension Fund) that are both multiemployer defined benefit pension plans established by the Province of Ontario. These plans are accounted for as defined contribution plans, as the Agency has insufficient information to apply defined benefit accounting to these pension plans. The Agency's contribution related to the pension plans for the period was $2.3 million (2005— $2.4 million) and is included in salaries and benefits in the Statement of Income and Retained Earnings.

13. Contributed Surplus

When the Agency was first established, the opening contributed surplus was received from the Province of Ontario in the form of the book value of net assets in excess of obligations assumed.

The adjustments to the opening balance relate to repairs and maintenance, legal costs and the write off of provincial assistance advances that were agreed to prior to the establishment of the Agency. The funds committed for such repairs and maintenance are spent on various undertakings, the largest of these undertakings has a spending limit of $7.5 million for capital repairs as approved by the Agency's Board of Directors. Of the $7.5 million approved, a cumulated $6.0 million has been spent. On other undertakings, a cumulated $5.6 million has been spent.

(in thousands of dollars)	December 31, 2006	December 31, 2005
Opening balance, January 1	$ 96,127	$ 96,855
Adjustments to opening balance	(255)	(728)
	$ 95,872	$ 96,127

14. Contingencies

(a) Litigation

The Agency is the defendant in a number of lawsuits. Most of these claims are covered by insurance after the application of a deductible, ranging from $5,000 to $100,000, depending on when the event giving rise to the claim occurred and the nature of the claim. The outcome of the lawsuits cannot be determined at this time. Losses, if any, will be accounted for in the period of settlement. The Agency's insurers have denied coverage with respect to several related multi-million dollar lawsuits in which the Agency has been named as a defendant by the same plaintiff. These lawsuits are currently being held in abeyance and it is believed that the Agency's exposure is significantly less than the amounts claimed, although the exact amount of the Agency's exposure cannot be determined at this time. In the event the litigation proceeds, the Agency's exposure will need to be re-evaluated periodically.

(b) Investments Receivable for Water and Wastewater Facilities

In August of 1999, the Agency entered into a loan agreement to finance the construction of a water pipeline, which was completed in May 2000. The outstanding loan balance including accumulated interest was $18.6 million at December 31, 2005. The loan agreement specified that repayment would be through sales of water, rather than according to a predetermined schedule. As of December 31, 2006, there have been no sales of water and accordingly no principal or interest payments have been made. Currently, the pipeline and the payments of the outstanding loan is the subject of ongoing discussions amongst various levels of government. Given the significant uncertainty regarding future water sales, in December 2005, the Agency provided for this loan in the full amount of $18.6 million. Beginning January 1, 2006, the Agency stopped recognizing interest on the loan and will recognize that interest revenue when payment is received. At December 31, 2006, the outstanding loan balance including accumulated interest is $19.9 million.

15. Property Transfer Initiative

In 1997, the Province passed legislation requiring the transfer of ownership of water and wastewater facilities from the Agency to municipalities. The Property Transfer Initiative captures all real estate conveyance costs associated with the title transfers. The transfers have been substantially completed and $4.7 million has been spent.

16. Related Party Transactions

As a result of the relationship of the Agency with the Province, the following related party transactions exist and have been disclosed in the notes to the financial statements:

(a) The Agency received revenue of $2.3 million during 2006 from the Ministry of the Environment for water and wastewater treatment services OCWA provided. The services were provided at competitive rates similar to those of other OCWA clients.

(b) The Agency provided a $120 million loan to Infrastructure Ontario, as described in note 6.

(c) The Agency relies on the Ministry of Government Services to process its payroll and administer its benefits. The Ministry of Government Services absorbs some of these administrative costs.

(d) The Agency received revenue of $0.7 million during 2006 from the Ontario Realty Corporation for water and wastewater treatment services OCWA provided. The services were provided at competitive rates similar to those of other OCWA clients.

17. Salaries

The *Public Sector Salary Disclosure Act, 1996* requires disclosure of Ontario public-sector employees paid an annual remuneration in excess of $100,000. The salary portion of an individual's compensation includes base salary, overtime payments, vacation/lieu time payouts, and incentive and/or lump sum merit payments. Listed below— by name, position, salary paid and taxable benefits— are those within OCWA whose salary exceeded $100,000 for the year 2006.

Name	Position	Salary Paid	Other Benefits
Atkinson, Daniel	Vice President, Operations	119,825.33	209.61
Baker, Brenda	Vice President, Finance and Corporate Services	116,779.69	205.69
Carter, John	Manager, Project Development & Tech. Services	117,212.73	199.17
Chin, Edward	Manager, Administration and Procurement	101,480.61	178.53
Dormer, Robert	Project Manager	105,268.30	175.59
Ethier, Marc	Regional Manager, Midwestern Region	100,497.73	177.30
Jenkins, Robert	Project Manager	105,237.56	144.85
Kempenaar, Gary	Regional Manager, Operational Efficiency & Innovation	103,649.77	176.78
Kind, Robin	General Counsel	195,595.24	302.83
Komulainen, Ilmari	Regional Manager, Eastern Region	107,315.14	177.30
Love, Steven	Legal Counsel	105,781.53	131.49
Pontone, Dante	President and Chief Executive Officer	146,892.04	256.16
Reid, Nicholas	Chief Information Officer	105,226.85	186.76
Rinas, Wilhelm	Legal Counsel	135,776.87	222.28
Seguire, John	Assistant Operations Manager	101,695.51	116.01
Terry, George	Vice President, Project Development & Tech. Services and Director, Market Development	106,894.00	182.26
Valickis, Andy	Project Manager	107,810.25	175.59
Williams, Gordon	Regional Manager, Northern Region	104,329.63	177.30

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Fax: 519.885.8192

Northern Region Office
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Thunder Bay, ON P7E 6G6
Phone: 807.475.1350
Fax: 807.475.1531

Southwestern Region Office
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Phone: 519.652.7014
Fax: 519.652.7020

South Peel Administration Office
1300 Lakeshore Road East
Mississauga, ON L5E 1E5
Phone: 905.274.1223
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